

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 PM-03 NSC-05 SP-02 SS-15 RSC-01 CIAE-00

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FM AMEMBASSY PRAGUE

TO SECSTATE WASHDC 7337

INFO AMEMBASSY BERLIN

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSY MOSCOW

AMEMBASSY SOFIA

AMEMBASSY VIENNA

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E.O. 11652: N/A

TAGS: ECON, CZ

SUBJECT: MORE SPECULATION ON PRICE REFORM

REF: A) PRAGUE 2973

B) PRAGUE 2528

BEGIN SUMMARY: AN ARTICLE APPEARING IN PARTY DAILY
RUDE PRAVO (DEC 2) SUGGESTS CZECH LEADERSHIP, IN WAKE
OF RECENT CC PLENUM, MAY BE STEPPING UP WHAT APPEARS TO
EMBASSY AS INCREASINGLY DISCERNIBLE CAMPAIGN TO PREPARE
NATION FOR PRICE REFORM. ARTICLE SPECULATES ON PROBLEMS CREATED
FOR CEMA MEMBERS BY SEVERE ECONOMIC FLUCTUATIONS IN WEST,
AND INDICATES THAT NEW DOMESTIC PRICING POLICIES WILL HAVE TO
BE PURSUED IN FUTURE AS A RESULT. IN EMBASSY'S ANALYSIS, SUCH
PRICE REFORMS ARE NEEDED AND OVERDUE. END SUMMARY.

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1. IN AN ARTICLE ENTITLED "INFLATION AND FOREIGN TRADE," LADISLAV ALSTER COMMENTS IN RUDE PRAVO, DECEMBER 2, ON PROBLEMS POSED FOR ECONOMIC PLANNERS IN CEMA COUNTRIES BY MOUNTING SIGNS OF INFLATION AND MONETARY "CRISIS" IN WEST. FORESEEING CONSEQUENCES FOR CAPITALIST WORLD AS DIRE AS THOSE WHICH OCCURRED IN YEARS 1929-1933 IF PRESENT TRENDS CONTINUE. ALSTER IS QUICK, HOWEVER, TO CITE REMARKS OF HUNGARIAN ECONOMIST IVAN WIESEL BEFORE A CEMA SCIENTIFIC SYMPOSIUM IN LENINGRAD LAST SEPTEMBER AS PROOF THAT CEMA COUNTRIES HAVE NO DESIRE TO SEE A DEEPENING OF ECONOMIC CRISIS IN WEST. (APPARENTLY WIESEL WAS FIRST AMONG CEMA ECONOMISTS TO ARTICULATE VIEW THAT A CRISIS IN CAPITALIST WORLD AT THIS PARTICULAR JUNCTURE WOULD BE IN SHORT-RUN OR, PERHAPS EVEN LONG-RUN, INTERESTS OF CEMA ECONOMIES.) ON CONTRARY, ACCORDING TO ALSTER, CEMA COUNTRIES HOPE TO WIDEN AND STABILIZE THEIR ECONOMIC RELATIONS WITH ALL COUNTRIES OF WORLD, BUT ONLY SO LONG AS THESE RELATIONS ARE BASED ON PRINCIPLES OF MUTUAL ADVANTAGE AND EQUALITY.

2. ALTHOUGH CEMA COUNTRIES AS A WHOLE CONDUCT 65 TO 70 PERCENT OF TOTAL FOREIGN TRADE AMONG THEMSELVES, THUS INSULATING THEIR ECONOMIES TO A LARGE DEGREE FROM ADVERSE ECONOMIC FLUCTUATIONS IN WEST, PRICE AND MONETARY MOVEMENTS IN CAPITALIST COUNTRIES MUST NEVERTHELESS BE CLOSELY WATCHED. THE "EFFECTIVENESS" OF FOREIGN TRADE WITH CAPITALIST COUNTRIES IS SEVERELY HAMPERED BY CLASH OF FLOATING EXCHANGE RATES WITH SYSTEM OF FIRM CURRENCY RATES IN CEMA WORLD. SOCIALIST PLANNING BECOMES MORE DIFFICULT AS RISING PRICES FOR RAW MATERIALS ON WORLD MARKETS INPINGS ON DOMESTIC ECONOMIES, FORCING CEMA GOVERNMENTS TO DIP DEEPLY INTO STATE BUDGETS IN ORDER TO BRIDGE WIDENING GAP BETWEEN STABLE DOMESTIC AND MOUNTING WORLD PRICES. THE RUDE PRAVO COMMENTARY ALSO CITES WIESEL'S WARNING THAT ANOTHER POSSIBLE FALLOUT FROM ONGOING CRISIS IN WEST IS THAT "WELLSPRING" OF CREDIT WHICH UNTIL NOW HAS HELPED TO FINANCE A RISING LEVEL OF TRADE WITH CEMA MEMBERS COULD EASILY DRY UP AS CREDIT SYSTEM IN CAPITALIST COUNTRIES ENTERS A PERIOD OF ENFORCED STRIGENCY.

3. ALPERT FLIRTS BRIEFLY WITH IDEA THAT IN THESE CIRCUMSTANCES THE CONVERTIBLE RUBLE COULD VERY WELL EMERGE AS A "CONVENIENT LIMITED OFFICIAL USE

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MEANS OF SETTling INTERNATIONAL PAYMENTS," ESPECIALLY WITH OIL-PRODUCING COUNTRIES WHO MAY INCREASINGLY LOOK TO CEMA MEMBER COUNTRIES AS REPOSITORIES FOR THEIR SURPLUS CAPITAL, AND THUS LEAD "TO FURTHER GROWTH OF AUTHORITY OF THE SOCIALIST SYSTEM." ARTICLE CLOSES BY NOTING THAT WHEREAS IN PAST CEMA COUNTRIES HAVE ALLEGEDLY BEEN GUIDED IN THEIR PRICING POLICIES BY "BUCHAREST PRICE PRINCIPLES" WHICH, ACCORDING TO ALPERT, HOLD THAT IN LONG-RUN CEMA PRICES MUST APPROACH THOSE OF WORLD MARKET.

CEMA PRICE PLANNERS IN FUTURE MUST ALSO APPROACH DIFFICULT TASK OF BRINGING DOMESTIC PRICES IN LINE WITH WORLD PRICES WITHOUT TYING FORMER SO CLOSE TO LATTER AS TO INTRODUCE CAPITALIST PRICE "DISTORTIONS" INTO SOCIALIST SYSTEM.

4. COMMENT: ALTHOUGH THERE MAY BE NO DIRECT CONNECTION, THE APPEARANCE OF THIS ARTICLE ONLY THREE DAYS AFTER KSC CENTRAL COMMITTEE MEETING NOVEMBER 27-29 WOULD INDICATE AN INCREASING AWARENESS BY PARTY OF PROBLEMS FACED BY ECONOMY IF CURRENT RATES OF INFLATION CONTINUE AMONG CZECHOSLOVAKIA'S MAJOR WESTERN TRADING PARTNERS. THIS ARTICLE IS MOST IMPORTANT OF SEVERAL SIMILAR PIECES WHICH HAVE APPEARED IN RECENT MONTHS AND WHICH TAKEN TOGETHER COULD BE READ AS SETTING STAGE FOR SELECTED HIKE IN EITHER CONSUMER OR INDUSTRIAL PRICES. AS REPORTED REFTEL (B), A USUALLY RELIABLE CZECHOSLOVAK SOURCE HAS PREDICTED A GENERAL RISE IN PRICE LEVELS WITHIN NEXT SEVERAL MONTHS, BUT AGAINST THIS WE ARE CONSTRAINED TO NOTE TWO FIRM STATEMENTS IN RECENT KSC CC PLENUM REPORT (REFTEL A) TO EFFECT THAT PARTY REMAINS COMMITTED TO MAINTAINING "STABILITY" OF CONSUMER PRICE LEVEL. ANY REALISTIC ASSESSMENT OF SITUATION FACING CZECHOSLOVAK GOVERNMENT, HOWEVER, WOULD HAVE TO INCLUDE JUDGMENT BASED ON CONVENTIONAL LAWS OF POLITICAL ECONOMY THAT PRICE INCREASES OF CONSIDERABLE MAGNITUDE WOULD SEEM INEVITABLE IN NOT-TOO-DISTANT FUTURE, IF FEDERAL TREASURY IS NOT TO RUN DRY.

5. IN THIS CONNECTION, WE NOTE THAT SAVINGS IN PRIVATE ACCOUNTS HAVE CONTINUED TO RISE AND NOW STAND AT NEARLY 7,500 CZECH CROWNS PER CAPITA, OR NINE PERCENT HIGHER THAN IN 1973. JUDGING BY RECURRING PRESS ACCOUNTS, THIS FACTOR ALONE HAS BEEN OF SOME CONCERN TO THE GOC WHICH NORMALLY SEEKS TO EXPLAIN THE HIGH SAVINGS RATE AS EVIDENCE OF RISE IN LIVING STANDARD AND OF "PEOPLE'S TRUST IN ECONOMIC POLICY OF STATE." CLEARLY, HOWEVER, LIMITED OFFICIAL USE

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THE GOVERNMENT WOULD LIKE TO SEE THESE SAVINGS REDUCED AND WHAT BETTER WAY THAN BY AN UPWARD REVISION IN PRICES? GIVEN HUSAK'S STRONG COMMITMENT TO PRICE STABILITY SINCE PRICE CUTS ON SOME 3,000 CONSUMER GOODS WERE PUT INTO EFFECT IN MAY 1971, IT MAY WELL BE THAT PROBLEM OF PRICE REFORM IS CONTENTIOUS ISSUE WHICH HAS CAUSED DELAY IN RELEASE OF FULLER PARTICULARS ON NOVEMBER 27-29 CC MEETING.
PERRY

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